

ANALYSIS OF ORIGINAL BILL

Author: Floyd Analyst: Paul Brainin Bill Number: AB 1728
Related Bills: See Legislative History Telephone: 845-3380 Introduced Date: 02-02-98

Attorney: Doug Bramhall Sponsor:

SUBJECT: Employment-Related Household & Dependent Care Services Credit

SUMMARY

This bill would allow an employment-related child and dependent care credit for two years. The credit amount would equal a percentage of the federal credit, without regard to specific federal limitations, based on the taxpayer's adjusted gross income (AGI) and would be phased out based on taxpayer income. Taxpayers with AGI in excess of \$100,000 would not be allowed this credit.

EFFECTIVE DATE

The credit would be operative for taxable years beginning on or after January 1, 1999, and before January 1, 2001.

LEGISLATIVE HISTORY

AB 258 (1997), AB 90, AB 183 (1995); AB 26, SB 39, AB 66 (1993/94)

HISTORY

California had a similar employment-related dependent and child care credit that sunset for taxable years beginning on or after January 1, 1993. However, that prior law did not phase out the credit based on the taxpayer's AGI. Instead, taxpayers with an AGI in excess of \$100,000 received a reduced credit equal to 15% of the federal credit.

SPECIFIC FINDINGS

Federal law allows a credit for a portion of qualifying child or dependent care expenses that are paid by taxpayers in order to be gainfully employed or to seek employment. For taxpayers with an AGI of \$10,000 or less, the credit is equal to 30% of a defined amount of employment-related expenses. The percentage is reduced, but not below 20%, for taxpayers with higher incomes. If expenses are incurred during any year for one qualifying child or dependent, the maximum annual amount of employment-related expenses to which the credit may be applied is \$2,400. For two or more children or dependents, the maximum amount of eligible expenses is \$4,800. The \$2,400 or \$4,800 amount is

DEPARTMENTS THAT MAY BE AFFECTED:

___ STATE MANDATE

___ GOVERNOR'S APPOINTMENT

Board Position:

___ S ___ O
___ SA ___ OUA
___ N ___ NP
___ NA ___ NAR
___X___ PENDING

Agency Secretary Position:

___ S ___ O
___ SA ___ OUA
___ N ___ NP
___ NA ___ NAR
DEFER TO ___

GOVERNOR'S OFFICE USE

Position Approved ___
Position Disapproved ___
Position Noted ___

Department Director

Gerald H. Goldberg

3/9/98

Agency Secretary

Date

By:

Date:

reduced by the aggregate amount excluded from gross income that is paid or incurred by the employer under a dependent care assistance program.

The federal credit cannot reduce taxes to less than the taxpayer's tentative minimum tax (TMT) under the alternative minimum tax (AMT) law.

State law provides no comparable credit; however, credits are available for employers that pay certain child care related expenses.

Under **this bill**, the employment-related child or dependent care credit amount would be based on the allowable federal credit as follows:

<u>Federal AGI</u>	<u>Allowable % of Federal Credit</u>
\$40,000 or less	30%
\$40,001 TO \$70,000	25%
\$70,001 TO \$100,000	20%
\$100,001 AND ABOVE	0%

The state credit amount would be based on the federal credit amount allowable without regard to whether there was a federal tax liability or any limitation imposed by the federal AMT law.

Since **this bill** does not specify otherwise, the general rules in state law regarding the division of credits among taxpayers, such as a husband and wife, would apply. Also, this credit would not be allowed to reduce regular tax below California TMT for purposes of calculating California AMT, and this credit would not be allowed to be carried over.

Implementation Considerations

This credit would require the addition of a worksheet to the tax forms booklets, but, by itself, would not significantly impact this department.

FISCAL IMPACT

Departmental Costs

This bill would not significantly impact the department's costs.

Tax Revenue Estimate

Revenue losses under the Personal Income Tax Law are estimated to be:

Effective After December 31, 1998 & Prior to January 1, 2001 (millions)		
1998-9	1999-0	2000-1
(\$5)	(\$54)	(\$50)

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

Tax Revenue Discussion

Revenue losses under the Personal Income Tax Law would depend on the number of taxpayers with adjusted gross incomes below \$100,000 who would qualify and claim the federal household and dependent care credit.

The above estimates were based on the department's personal income tax model projections. Special programming was done to reflect the federal law and phase-out effects.

BOARD POSITION

Pending.